LANCASHIRE HOLDINGS LIMITED

GROWTH IN FULLY CONVERTED BOOK VALUE PER SHARE, ADJUSTED FOR DIVIDENDS, OF 3.6% IN Q2 2012, 7.1% YEAR TO DATE
COMBINED RATIO OF 60.7% IN Q2 2012, 67.2% YEAR TO DATE
INTERIM DIVIDEND OF 5 CENTS PER COMMON SHARE
FULLY CONVERTED BOOK VALUE PER SHARE OF $8.06 AT 30 JUNE 2012

25 July 2012
Hamilton, Bermuda

Lancashire Holdings Limited ("Lancashire" or "the Group") today announces its results for the second quarter of 2012 and the six month period ended 30 June 2012.

Financial highlights:

	As at 30 June 2012	As at 30 June 2011
Fully converted book value per share	**$8.06**	**$7.96**
Return on equity* – Q2	**3.6%**	**6.1%**
Return on equity* – YTD	**7.1%**	**6.5%**
Operating return on average equity – Q2	**4.3%**	**6.5%**
Operating return on average equity – YTD	**7.5%**	**7.0%**
Interim dividend per common share**	**$0.05**	**$0.05**

* Return on equity is defined as growth in fully converted book value per share, adjusted for dividends.
** See "Dividends" below for Record Date and Dividend Payment Date.

	Three months ended 30 June 2012	Three months ended 30 June 2011	Six months ended 30 June 2012	Six months ended 30 June 2011
Highlights ($m)				
Gross premiums written	280.8	207.9	514.8	379.8
Net premiums written	233.5	191.4	365.6	329.1
Profit before tax	60.6	91.0	107.1	99.4
Profit after tax	58.5	88.9	103.7	97.5
Net operating profit	59.7	86.3	102.6	93.2
Per share data				
Diluted earnings per share	$0.32	$0.50	$0.57	$0.56
Diluted earnings per share – operating	$0.33	$0.49	$0.57	$0.53
Financial ratios				
Total investment return	0.6%	1.1%	1.7%	1.8%
Net loss ratio	27.9%	8.8%	31.7%	38.2%
Combined ratio	60.7%	41.2%	67.2%	69.5%
Accident year loss ratio	42.6%	42.7%	46.5%	73.0%

Richard Brindle, Group Chief Executive Officer, commented:

I am pleased to report another profitable quarter for Lancashire. We have increased book value per share with a return on equity of 3.6% for the second quarter, and 7.1% for the year to date. This marks another solid increase in book value per share, including dividends, for twenty five out of the last twenty six quarters since our inception in 2005.

As we enter the US wind season we are comfortable with current capital levels, and an interim dividend of 5 cents per common share has been declared by the Board. We remain committed to ensuring that our capital management remains flexible and that our capital base matches the underwriting opportunities at any point in time.

At the very heart of our business strategy is the principle that underwriting always comes first. This requires strategic thinking, discipline and, at times, some hard decisions. The premium rates across our core lines of business have broadly held up, and we have seen some attractive opportunities in particular in our energy offshore lines, as well as property catastrophe excess of loss reinsurance and property retrocession lines. Our commitment to understanding and developing opportunities and relationships in the Japanese market resulted in increased commitments at the 1 April Japanese renewal season. We are also pleased to have received a fresh commitment from the investors in our Accordion facility to continue supporting Lancashire's property retrocession lines for a second underwriting year.

It is with some sadness that I have to report that Lancashire decided during the quarter to withdraw progressively from its property direct and facultative lines, as well as onshore energy. The loss ratios in these classes were proving volatile, and the risk pricing was consistently depressed, making it inefficient for Lancashire to continue to deploy capital in supporting these lines, particularly in view of other more attractive underwriting opportunities. I would like to thank the members of Lancashire's direct and facultative underwriting team and to wish them well for the future.

Elaine Whelan, Group Chief Financial Officer, commented:

Bucking the seeming recent trend, the second quarter has been light in respect of major catastrophes. We are pleased to report a 3.6% return for the quarter, a solid result given the slight uptick in risk losses in the quarter. In investment markets, it has been more of the same, and, given the volatility in the second quarter, we produced a very satisfactory return of 0.6%. However, absent any significant improvements in the overall trading environment before the end of the year, we would expect to reduce our risk levels slightly and return capital accordingly. As ever, the balance of capital we hold will match the underwriting opportunities we foresee.

Lancashire Renewal Price Index for major classes

Lancashire's Renewal Price Index ("RPI") is an internal tool that management uses to track trends in premium rates on a portfolio of insurance and reinsurance contracts. The RPI is calculated on a per contract basis and reflects Lancashire's assessment of relative changes in price, terms, conditions and limits on like for like renewals only, and is weighted by premium volume (see "Note Regarding RPI Tool" at the end of this announcement for further guidance). The RPI does not include new business. The following RPIs are expressed as an approximate percentage of pricing achieved on similar contracts written in 2011:

Class	**YTD 2012**	**Q2 2012**	**Q1 2012**
Aviation (AV52)	95%	98%	92%
Gulf of Mexico energy	100%	100%	100%
Energy offshore worldwide	103%	104%	102%
Marine	115%	130%	103%
Direct and facultative	108%	109%	107%
Property retrocession and reinsurance	125%	145%	112%
Terrorism	97%	98%	96%
Combined	**106%**	**109%**	**103%**

Underwriting results

Gross premiums written

	Q2				**YTD**			
	2012 $m	**2011 $m**	**Change $m**	**Change %**	**2012 $m**	**2011 $m**	**Change $m**	**Change %**
Property	118.0	62.9	55.1	87.6	276.5	165.2	111.3	67.4
Energy	123.5	123.4	0.1	-	167.8	152.1	15.7	10.3
Marine	30.4	10.9	19.5	178.9	53.9	44.2	9.7	21.9
Aviation	8.9	10.7	(1.8)	(16.8)	16.6	18.3	(1.7)	(9.3)
Total	**280.8**	**207.9**	**72.9**	**35.1**	**514.8**	**379.8**	**135.0**	**35.5**

Gross premiums written increased by 35.1% in the second quarter of 2012 compared to the same period in 2011. In 2012 to date, gross premiums written increased by 35.5% compared to the first six months of 2011. For both the quarter and the year to date, in dollar terms, the increases compared to the prior year were driven by the property book. The Group's four principal classes, and the key market factors impacting them, are discussed below.

Property gross premiums written increased by 87.6% for the quarter compared to the same period in 2011 and increased by 67.4% in the first six months of 2012 compared to the first six months of 2011. The majority of the increase in the quarter was due to the property catastrophe excess of loss book, predominantly due to new Japanese and Japanese Interests Abroad business, but also the impact of the 1 April 2011 Japanese renewals being extended to 1 July last year, in the aftermath of the Tohoku earthquake and resulting tsunami, now renewing again at their traditional time of 1 April. We also saw further opportunities in the property retrocession line in the second quarter and wrote a little more business there, some of which met the criteria for cession to the Accordion sidecar vehicle. We also saw an increase in premium written in the political risk classes in the second quarter of 2012 compared to the second quarter of 2011. The political risk market tends to be more unpredictable than other classes of business: there is a limited amount of renewal business as policies often relate to specific one-off projects. For the year to date, the increase in property premiums arose largely due to increased property retrocession writings at 1 January 2012. In anticipation of a declining trading environment through the rest of the year, we increased our exposures at 1 January significantly, utilising the Accordion sidecar for a sizeable portion of this business. Premium volumes in property direct and facultative were, however, down for both the quarter and year to date as we continued to rebalance our book towards the better priced reinsurance lines. Lancashire ceased writing new and renewal property direct and facultative business from 1 July 2012 given current pricing and anticipated lower profitability for renewals.

Energy gross premiums written were flat compared to the same period in 2011 and increased by 10.3% in the first six months of 2012 compared to the first six months of 2011. The increase in premiums year on year was driven primarily by an increased premium flow from prior underwriting years risk attaching business in the first quarter in the worldwide offshore book. In the second quarter, typically the major renewal period for the energy sector, while overall volumes were flat, there was significant activity within the Gulf of Mexico line. In the second quarter of 2011 a number of deals were written on a multi-year basis and are not up for renewal yet. This reduction in renewing business for 2012 was almost entirely offset by new premium from prior underwriting year multi-year contracts which renewed ahead of their expiration, as clients sought to lock-in wind cover beyond the original term.

Marine gross premiums written increased by 178.9% for the quarter compared to the same period in 2011 and by 21.9% in the first six months of 2012 compared to the first six months of 2011. The increase was largely driven by the timing of multi-year contract renewals, which included significant price increases on loss affected contracts following the first quarter Costa Concordia marine loss.

Aviation gross premiums written decreased by 16.8% for the quarter compared to the same period in 2011 and decreased by 9.3% in the first six months of 2012 compared to the first six months of 2011. While pricing and renewal rates remain under some pressure, the first two quarters of the year are not major renewal periods for the aviation sector and volumes are relatively light.

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Ceded reinsurance premiums increased by $30.8 million, or 186.7%, for the quarter and increased by $98.5 million, or 194.3%, for the six-month period to 30 June 2012, in each case compared to the same periods in 2011. The second quarter ceded premiums increased due to further cessions to the Accordion sidecar, bringing the total cession for the year to date to $60.9 million versus the $6.8 million for the first six months of 2011. We also continued opportunistically to purchase Industry Loss Warranties, amongst other reinsurance programs, expand our existing marine and energy reinsurance cover and recorded further reinstatement premiums in relation to the Costa Concordia loss.

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Net premiums earned as a proportion of net premiums written were 64.3% in the second quarter of 2012 compared to 74.3% in the same period in 2011 and 79.8% in the six months to 30 June 2012, compared to 87.4% in the same period in 2011. Net premiums earned in 2011 benefited from a higher proportion of earnings resulting from premium volumes in the second half of the preceding year than the same period in 2012.

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The Group's net loss ratio for the second quarter of 2012 was 27.9% compared to 8.8% for the same period in 2011 and 31.7% for the six month period to 30 June 2012 compared to 38.2% for the same period in 2011. In the second quarter of 2012 the loss ratio was impacted by the adverse development of the Costa Concordia marine loss by $24.6 million, after reinsurance and reinstatement premium. This compares to development on specific event net losses of $25.5

million in the second quarter of 2011 in relation to the Tohoku and Christchurch earthquakes and the Gryphon Floating Production Storage and Offloading (FPSO) vessel.

The six months to 30 June 2012 include a total estimated net loss of $58.7 million, after reinsurance and reinstatement premium, in relation to the total loss of the Costa Concordia. This compares to specific event net losses of $142.0 million in the first half of 2011 in relation to the Tohoku and Christchurch earthquakes and the Gryphon FPSO.

Prior year favourable development for the second quarter was $22.9 million, compared to $46.1 million for the second quarter of 2011, and was $43.5 million for the 2012 year to date, compared to $96.9 million for the same period in 2011. In early 2011 an independent external reserve study was commissioned in order to incorporate the Group's own loss experience with industry factors previously used. On completion, net reserves of $36.9 million were released. Both years otherwise experienced releases due to lower than expected reported losses, with 2011 experiencing exceptionally low reported prior year losses.

The following tables show the impact of prior year development and current accident year large losses on the Group's loss ratio:

	Q2 2012		**YTD 2012**	
	Losses $m	**Loss Ratio %**	**Losses $m**	**Loss Ratio %**
At 30 June 2012	41.9	27.9	92.4	31.7
Absent Costa Concordia	20.8	13.5	46.7	15.3
Absent prior year development	64.8	43.1	135.9	46.6
Adjusted loss ratio	**43.7**	**28.4**	**90.2**	**29.6**

Note: Adjusted loss ratio excludes large losses and prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

	Q2 2011		**YTD 2011**	
	Losses $m	**Loss Ratio %**	**Losses $m**	**Loss Ratio %**
At 30 June 2011	12.5	8.8	109.8	38.2
Absent Tohoku & Christchurch	12.7	8.9	14.6	5.2
Absent Gryphon FPSO	(10.6)	(7.4)	61.7	21.2
Absent prior year development	58.6	41.2	206.7	71.9
Adjusted loss ratio	**35.7**	**24.6**	**63.4**	**22.2**

Note: Adjusted loss ratio excludes large losses plus prior year development. The table does not sum to a total due to the impact of reinstatement premiums.

The table below provides further detail of the prior years' loss development by class, excluding the impact of foreign exchange revaluations.

	Q2		**YTD**	
	2012 $m	**2011 $m**	**2012 $m**	**2011 $m**
Property	(9.8)	26.7	(8.5)	35.3
Energy	14.0	12.7	28.6	35.4
Marine	18.6	6.6	23.3	20.7
Aviation	0.1	0.1	0.1	5.5
Total	**22.9**	**46.1**	**43.5**	**96.9**

Note: Positive numbers denote favourable development.

The accident year loss ratio for the second quarter of 2012, including the impact of foreign exchange revaluations, was 42.6% compared to 42.7% for the same period in 2011. The year to date accident year loss ratio was 46.5% compared to 73.0% for the six months to 30 June 2011. The 2012 accident year loss ratio for the six months to 30 June 2012 included 17.0% for the Costa Concordia loss.

The 2011 accident year loss ratio for the six months to 30 June 2011 included:

- 25.2% for the Tohoku earthquake;
- 17.5% for the Gryphon FPSO loss; and
- 6.7% for the Christchurch earthquake

Otherwise, both years experienced relatively low levels of reported losses.

Excluding the impact of foreign exchange revaluations, previous accident years' ultimate losses developed as follows during the first half of 2012 and 2011:

	Six months ended 30 Jun 2012 $m	**Six months ended 30 Jun 2011 $m**
2006 accident year	0.2	1.8
2007 accident year	1.8	9.8
2008 accident year	(0.5)	15.4
2009 accident year	5.7	26.2
2010 accident year	11.5	43.7
2011 accident year	24.8	-
Total	**43.5**	**96.9**

Note: Positive numbers denote favourable development.

The ratio of IBNR to total net loss reserves was 29.6% at 30 June 2012 compared to 29.9% at 30 June 2011.

Investments

Net investment income, excluding realised and unrealised gains and losses, was $8.4 million for the second quarter of 2012, a decrease of 31.1% from the second quarter of 2011. Overall lower yields and a reduction in the emerging market debt portfolio contributed to the decrease in investment income for the quarter compared to the second quarter of 2011. In addition, returns in the second quarter of 2011 were boosted by a small allocation (3.6%) to equities. The Group liquidated its equity position in the third quarter of 2011 given the increasing volatility in the markets at that point.

In the second quarter of 2012, the Group reduced its emerging market debt portfolio due to the ongoing market volatility from Eurozone concerns. Currently 4.3% of the portfolio is allocated to emerging markets with an overall average credit quality of BBB. The Group has no exposure to European peripheral sovereign debt. Exposure to European peripheral corporate debt is approximately $2.5 million consisting of Spanish and Italian non-financial corporate debt. The corporate bond allocation, excluding Federal Deposit Insurance Corporation guaranteed bonds, represented 28.5% of managed invested assets at 30 June 2012 compared to 32.6% at 30 June 2011.

Total investment return, including net investment income, net realised gains and losses, impairments and net change in unrealised gains and losses, was $12.4 million for the second quarter of 2012 compared to $21.1 million for the second quarter of 2011, and was $34.0 million for the 2012 year to date versus $32.8 million for the same period in 2011. The second quarter of 2012 was mostly "risk-off" following disappointing economic data out of the U.S. and continued volatility in the Eurozone. Credit spread widening and the treasury yields rally produced lower investment returns compared to the more stable performance of the second quarter of 2011. The 2012 year to date return includes positive returns from the first quarter when our portfolio benefited from significant credit spread tightening, particularly in the emerging market debt portfolio.

The managed portfolio was invested as follows:

	As at 30 June 2012	As at 31 December 2011	As at 30 June 2011
Fixed income securities	86.3%	86.8%	78.2%
Cash and cash equivalents	13.7%	13.2%	18.2%
Equity securities	-	-	3.6%
Total	**100.0%**	**100.0%**	**100.0%**

Key investment portfolio statistics are:

	As at 30 June 2012	As at 31 December 2011	As at 30 June 2011
Duration	1.8 years	1.8 years	1.8 years
Credit quality	AA-	AA-	AA
Book yield	1.8%	1.9%	2.2%
Market yield	1.2%	1.5%	1.6%

Accordion

The share of loss of associate of $1.4 million for the second quarter of 2012 and the share of profit of $1.5 million for the year to date reflects Lancashire's 20% equity interest in the vehicle. Share of profit of associate was nil for the same periods in 2011.

Other operating expenses

Operating expenses consist of the following items:

	Q2		YTD	
	2012 $m	2011 $m	2012 $m	2011 $m
Employee remuneration	9.2	11.2	27.8	21.5
Other operating expenses	7.9	8.7	13.7	17.1
Total	**17.1**	**19.9**	**41.5**	**38.6**

In the first quarter of 2012 employment remuneration included a one-off national insurance charge of $6.9 million, incurred as a result of the Group's tax residency move to the UK effective from 1 January 2012.

Equity based compensation was $2.5 million in the second quarter of 2012 compared to $5.8 million in the same period last year. For the six months to 30 June 2012 and 2011 the charge was $5.9 million and $12.2 million respectively. The equity compensation charge in the second quarter of 2011 and for the first half of 2011 included $1.1 million and $3.2 million respectively, in relation to dividend strike price revisions on option awards under the Group's 2005 Long Term Incentive Plan Option Scheme, which was closed to further awards in 2008. By the first quarter of 2012 the majority of these previously issued option awards had been exercised and the remaining charges on them were negligible. The reduction in the remaining 2012 expense reflects adjustments to vesting assumption for the Group's Restricted Share Scheme, based on the Group's relative and absolute performance.

Capital

At 30 June 2012, total capital was $1.549 billion, comprising shareholders' equity of $1.422 billion and $126.9 million of long-term debt. Leverage was 8.2%. Total capital was $1.512 billion at 30 June 2011 and $1.455 billion at 31 December 2011.

Dividends

Lancashire announces that its Board has declared an interim dividend for 2012 of 5 cents per common share (approximately 3 pence per common share at the current exchange rate), which will result in an aggregate payment of approximately $8.0 million. The dividend will be paid in Pounds Sterling on 26 September 2012 (the "Dividend Payment Date") to shareholders of record on 31 August 2012 (the "Record Date") using the £ / $ spot market exchange rate at 12 Noon London time on the Record Date.

In addition to the interim dividend payment to shareholders, approximately $1.6 million in aggregate will be paid on the Dividend Payment Date to holders of share warrants issued by the Company pursuant to the terms of the warrants.

The Group will continue to review the appropriate level and composition of capital for the Group with the intention of managing capital to enhance risk-adjusted returns on equity.

Financial information

Further details of our 2012 second quarter results can be obtained from our Financial Supplement. This can be accessed via our website at www.lancashiregroup.com.

Prior to the end of July 2012, we intend to publish our Unaudited Condensed Interim Consolidated Financial Statements for the six months ended 30 June 2012 via our website at www.lancashiregroup.com.

Analyst and Investor Earnings Conference Call

There will be an analyst and investor conference call on the results at 1:00pm UK time / 8:00am EDT on Wednesday 25 July 2012. The conference call will be hosted by Lancashire management.

The call can be accessed by dialling +44 (0)208 817 9301 / +1 718 354 1226 with the confirmation code 7713741. The call can also be accessed via webcast, please go to our website (www.lancashiregroup.com) to access.

A replay facility will be available for two weeks until Wednesday 08 August 2012. The dial in number for the replay facility is +44 (0)207 769 6425 with passcode 7713741# .The replay facility will also be accessible at www.lancashiregroup.com

For further information, please contact:

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Investor enquiries and questions can also be directed to info@lancashiregroup.com or by accessing the Group's website at www.lancashiregroup.com.

About Lancashire

Lancashire, through its UK and Bermuda-based insurance subsidiaries, is a global provider of specialty insurance products. The Group companies carry the following ratings:

	Financial Strength Rating (1)	Long Term Issuer Rating (2)	Outlook
A.M. Best	A	bbb	Stable
Standard & Poor's	A-	BBB	Stable
Moody's	A3	Baa2	Stable

(1)Financial Strength Rating applies to Lancashire Insurance Company Limited and Lancashire Insurance Company (UK) Limited

(2) Long Term Issuer Rating applies to Lancashire Holdings Limited

Lancashire has capital in excess of $1 billion and its common shares trade on the Main Market of the London Stock Exchange under the ticker symbol LRE. Lancashire has its corporate headquarters and mailing address at Level 11, Vitro, 60 Fenchurch Street, London EC3M 4AD, United Kingdom and its registered office at Power House, 7 Par-la-Ville Road, Hamilton HM 11, Bermuda.

For more information on Lancashire, visit the Company's website at www.lancashiregroup.com

Lancashire Insurance Company Limited is regulated by the Bermuda Monetary Authority in Bermuda.
Lancashire Insurance Company (UK) Limited is regulated by the Financial Services Authority in the UK.

NOTE REGARDING RPI TOOL

LANCASHIRE'S RENEWAL PRICE INDEX ("RPI") IS AN INTERNAL TOOL THAT ITS MANAGEMENT USES TO TRACK TRENDS IN PREMIUM RATES OF A PORTFOLIO OF INSURANCE AND REINSURANCE CONTRACTS. THE RPI IS CALCULATED ON A PER CONTRACT BASIS AND REFLECTS LANCASHIRE'S ASSESSMENT OF RELATIVE CHANGES IN PRICE, TERMS, CONDITIONS AND LIMITS AND IS WEIGHTED BY PREMIUM VOLUME. THE CALCULATION INVOLVES A DEGREE OF JUDGEMENT IN RELATION TO COMPARABILITY OF CONTRACTS AND THE ASSESSMENT NOTED ABOVE. TO ENHANCE THE RPI TOOL, MANAGEMENT OF LANCASHIRE MAY REVISE THE METHODOLOGY AND ASSUMPTIONS UNDERLYING THE RPI, SO THE TRENDS IN PREMIUM RATES REFLECTED IN THE RPI MAY NOT BE COMPARABLE OVER TIME. CONSIDERATION IS ONLY GIVEN TO RENEWALS OF A COMPARABLE NATURE SO IT DOES NOT REFLECT EVERY CONTRACT IN LANCASHIRE'S PORTFOLIO. THE FUTURE PROFITABILITY OF THE PORTFOLIO OF CONTRACTS WITHIN THE RPI IS DEPENDENT UPON MANY FACTORS BESIDES THE TRENDS IN PREMIUM RATES.

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

CERTAIN STATEMENTS AND INDICATIVE PROJECTIONS (WHICH MAY INCLUDE MODELED LOSS SCENARIOS) MADE IN THIS RELEASE OR OTHERWISE THAT ARE NOT BASED ON CURRENT OR HISTORICAL FACTS ARE FORWARD-LOOKING IN NATURE INCLUDING WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS 'BELIEVES', 'ANTICIPATES', 'PLANS', 'PROJECTS', 'FORECASTS', 'GUIDANCE', 'INTENDS', 'EXPECTS', 'ESTIMATES', 'PREDICTS', 'MAY', 'CAN', 'WILL', 'SEEKS', 'SHOULD', OR, IN EACH CASE, THEIR NEGATIVE OR COMPARABLE TERMINOLOGY. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDING, WITHOUT LIMITATION, THOSE REGARDING THE GROUP'S FINANCIAL POSITION, RESULTS OF OPERATIONS, LIQUIDITY, PROSPECTS, GROWTH, CAPITAL MANAGEMENT PLANS, BUSINESS STRATEGY, PLANS AND OBJECTIVES OF MANAGEMENT FOR FUTURE OPERATIONS (INCLUDING DEVELOPMENT PLANS AND OBJECTIVES RELATING TO THE GROUP'S INSURANCE BUSINESS) ARE FORWARD-LOOKING STATEMENTS. SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER IMPORTANT FACTORS THAT COULD CAUSE THE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS OF THE GROUP TO BE MATERIALLY DIFFERENT FROM FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS.

THESE FACTORS INCLUDE, BUT ARE NOT LIMITED TO: THE NUMBER AND TYPE OF INSURANCE AND REINSURANCE CONTRACTS THAT WE WRITE; THE PREMIUM RATES AVAILABLE AT THE TIME OF SUCH RENEWALS WITHIN OUR TARGETED BUSINESS LINES; THE LOW FREQUENCY OF LARGE EVENTS; UNUSUAL LOSS FREQUENCY; THE IMPACT THAT OUR FUTURE OPERATING RESULTS, CAPITAL POSITION AND RATING AGENCY AND OTHER CONSIDERATIONS HAVE ON THE EXECUTION OF ANY CAPITAL MANAGEMENT INITIATIVES; THE POSSIBILITY OF GREATER FREQUENCY OR SEVERITY OF CLAIMS AND LOSS ACTIVITY THAN OUR UNDERWRITING, RESERVING OR INVESTMENT PRACTICES HAVE ANTICIPATED; THE RELIABILITY OF, AND CHANGES IN ASSUMPTIONS TO, CATASTROPHE PRICING, ACCUMULATION AND ESTIMATED LOSS MODELS; THE EFFECTIVENESS OF OUR LOSS LIMITATION METHODS; LOSS OF KEY PERSONNEL; A DECLINE IN OUR OPERATING SUBSIDIARIES' RATING WITH A.M. BEST, STANDARD & POOR'S, MOODY'S OR OTHER RATING AGENCIES; INCREASED COMPETITION ON THE BASIS OF PRICING, CAPACITY, COVERAGE TERMS OR OTHER FACTORS; A CYCLICAL DOWNTURN OF THE INDUSTRY; THE IMPACT OF A DETERIORATING CREDIT ENVIRONMENT FOR ISSUERS OF FIXED INCOME INVESTMENTS; THE IMPACT OF SWINGS IN MARKET INTEREST RATES AND SECURITIES PRICES; A RATING DOWNGRADE OF, OR A MARKET DECLINE IN, SECURITIES IN OUR INVESTMENT PORTFOLIO; CHANGES IN GOVERNMENTAL REGULATIONS OR TAX LAWS IN JURISDICTIONS WHERE LANCASHIRE CONDUCTS BUSINESS; LANCASHIRE HOLDINGS LIMITED OR ITS BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED STATES OR THE BERMUDIAN SUBSIDIARY BECOMING SUBJECT TO INCOME TAXES IN THE UNITED KINGDOM; THE UK TEMPORARY PERIOD EXEMPTION UNDER THE CFC REGIME FAILING TO REMAIN IN FORCE FOR THE PERIOD INTENDED; THE OMISSION FROM THE NEW CFC REGIME OF A SUITABLE EXCLUSION (E.G. RELATING TO INSURANCE OR REINSURANCE OF THIRD PARTY RISKS WRITTEN IN THE INTERNATIONAL INSURANCE MARKET); ANY CHANGE IN THE UK GOVERNMENT OR THE UK GOVERNMENT POLICY WHICH IMPACTS THE NEW CFC REGIME.

THESE FORWARD-LOOKING STATEMENTS SPEAK ONLY AS AT THE DATE OF PUBLICATION. LANCASHIRE HOLDINGS LIMITED EXPRESSLY DISCLAIMS ANY OBLIGATION OR UNDERTAKING (SAVE AS REQUIRED TO COMPLY WITH ANY LEGAL OR REGULATORY OBLIGATIONS (INCLUDING THE RULES OF THE LONDON STOCK EXCHANGE)) TO DISSEMINATE ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENTS TO REFLECT ANY CHANGES IN THE GROUP'S EXPECTATIONS OR CIRCUMSTANCES ON WHICH ANY SUCH STATEMENT IS BASED.

Consolidated statement of comprehensive income

(Unaudited)

	Quarter 2 2012 $m	Quarter 2 2011 $m	YTD 2012 $m	YTD 2011 $m
Gross premiums written	280.8	207.9	514.8	379.8
Outwards reinsurance premiums	(47.3)	(16.5)	(149.2)	(50.7)
Net premiums written	**233.5**	**191.4**	**365.6**	**329.1**
Change in unearned premiums	(88.7)	(53.4)	(143.8)	(67.9)
Change in unearned premiums ceded	5.4	4.3	69.9	26.3
Net premiums earned	**150.2**	**142.3**	**291.7**	**287.5**
Net investment income	8.4	12.2	17.1	23.8
Net other investment (losses) income	(0.2)	0.1	0.5	-
Net realised gains (losses) and impairments	3.7	2.6	4.9	5.0
Share of (loss) profit of associate	(1.4)	-	1.5	-
Net foreign exchange (losses) gains	(2.8)	1.8	(0.4)	0.9
Total net revenue	**157.9**	**159.0**	**315.3**	**317.2**
Insurance losses and loss adjustment expenses	85.1	17.6	164.8	122.7
Insurance losses and loss adjustment expenses recoverable	(43.2)	(5.1)	(72.4)	(12.9)
Net insurance acquisition expenses	32.1	26.2	62.0	51.6
Equity based compensation	2.5	5.8	5.9	12.2
Other operating expenses	17.1	19.9	41.5	38.6
Total expenses	**93.6**	**64.4**	**201.8**	**212.2**
Results of operating activities	**64.3**	**94.6**	**113.5**	**105.0**
Financing costs	3.7	3.6	6.4	5.6
Profit before tax	**60.6**	**91.0**	**107.1**	**99.4**
Tax charge	2.1	2.1	3.4	1.9
Profit for the period attributable to equity shareholders	**58.5**	**88.9**	**103.7**	**97.5**
Net change in unrealised (losses) gains on investments	0.5	6.5	11.7	4.4
Tax on net change in unrealised (losses) gains on investments	-	(0.3)	(0.2)	(0.4)
Other comprehensive income	**0.5**	**6.2**	**11.5**	**4.0**
Total comprehensive income attributable to equity shareholders	**59.0**	**95.1**	**115.2**	**101.5**
Net loss ratio	27.9%	8.8%	31.7%	38.2%
Net acquisition cost ratio	21.4%	18.4%	21.3%	17.9%
Administrative expense ratio	11.4%	14.0%	14.2%	13.4%
Combined ratio	60.7%	41.2%	67.2%	69.5%
Basic earnings per share	$0.37	$0.58	$0.65	$0.64
Diluted earnings per share	$0.32	$0.50	$0.57	$0.56
Change in fully converted book value per share	3.6%	6.1%	7.1%	6.5%

Consolidated balance sheet

	Unaudited 30 Jun 2012 $m	Unaudited 30 Jun 2011 $m	Audited 31 Dec 2011 $m
Assets			
Cash and cash equivalents	328.1	448.9	311.8
Accrued interest receivable	9.0	11.8	10.0
Investments			
- Fixed income securities, available for sale	1,767.0	1,637.3	1,714.0
- Fixed income securities, at fair value through profit or loss	-	8.6	-
- Equity securities, available for sale	-	75.2	-
- Other investments	(0.3)	(0.4)	(0.6)
Reinsurance assets			
- Unearned premiums on premiums ceded	78.7	29.2	8.8
- Reinsurance recoveries	108.7	46.1	69.7
- Other receivables	0.6	0.1	6.2
Deferred acquisition costs	83.0	70.5	61.4
Other receivables	16.4	10.3	48.6
Inwards premiums receivable from insureds and cedants	335.3	292.6	212.1
Deferred tax asset	5.8	7.7	8.2
Investment in associate	43.5	7.5	50.9
Property, plant and equipment	4.1	6.8	5.3
Intangible asset	2.9	-	1.2
Total assets	**2,782.8**	**2,652.2**	**2,507.6**
Liabilities			
Insurance contracts			
- Losses and loss adjustment expenses	576.6	576.7	571.2
- Unearned premiums	490.9	418.5	347.1
- Other payables	23.6	19.7	23.5
Amounts payable to reinsurers	69.9	22.8	17.8
Deferred acquisition costs ceded	5.5	1.2	0.7
Other payables	59.9	97.7	85.2
Corporation tax payable	0.2	1.7	1.2
Interest rate swap	7.5	2.0	6.1
Long-term debt	126.9	131.5	128.0
Total liabilities	**1,361.0**	**1,271.8**	**1,180.8**
Shareholders’ equity			
Share capital	84.3	84.3	84.3
Own shares	(68.2)	(90.5)	(83.0)
Share premium	2.4	2.4	2.4
Contributed surplus	659.7	659.6	660.5
Accumulated other comprehensive income	29.1	32.2	17.6
Other reserves	52.6	68.2	67.6
Retained earnings	661.9	624.2	577.4
Total shareholders' equity attributable to equity shareholders	**1,421.8**	**1,380.4**	**1,326.8**
Total liabilities and shareholders' equity	**2,728.8**	**2,652.2**	**2,507.6**

Statement of consolidated cashflows
(unaudited)

	Unaudited Six months 2012	Unaudited Six months 2011	Audited Twelve months 2011
	$m	$m	$m
Cash flows from operating activities			
Profit before tax	107.1	99.4	218.6
Tax paid	(1.2)	(6.4)	(9.7)
Depreciation	1.4	1.4	2.9
Interest expense on long term debt	2.8	2.8	5.6
Interest and dividend income	(24.7)	(29.0)	(56.2)
Net amortisation of fixed income securities	5.6	3.1	8.7
Equity based compensation	5.9	12.2	18.8
Foreign exchange (gains) losses	(1.9)	0.1	11.5
Share of profit of associate	(1.5)	-	(0.9)
Net other investment (income) losses	(0.5)	-	0.5
Net realised (gains) losses and impairments	(4.9)	(5.0)	(8.6)
Net unrealised loss on interest rate swaps	1.4	1.3	5.4
Changes in operational assets and liabilities			
- Insurance and reinsurance contracts	(36.1)	34.7	38.2
- Other assets and liabilities	6.8	73.0	22.9
Net cash flows from operating activities	**60.2**	**187.6**	**257.7**
Cash flows (used in) from investing activities			
Interest and dividends received	25.7	30.6	59.6
Net purchase of property, plant and equipment	(0.2)	(0.8)	(0.6)
Purchase and development of intangible asset	(1.7)	-	(1.2)
Investment in associate	8.9	(7.5)	(50.0)
Purchase of fixed income securities	(852.3)	(801.6)	(1,944.5)
Purchase of equity securities	-	(76.4)	(87.4)
Proceeds on maturity and disposal of fixed income securities	811.1	882.7	1,939.0
Proceeds on disposal of equity securities	-	2.0	80.2
Net proceeds on other investments	(1.2)	(0.6)	1.1
Net cash flows (used in) from investing activities	**(9.7)**	**28.4**	**(3.8)**
Cash flows used in financing activities			
Interest paid	(2.9)	(2.8)	(5.6)
Dividends paid	(19.2)	(282.9)	(444.4)
Distributions by trust	(7.9)	(3.3)	(4.5)
Net cash flows used in financing activities	**(30.0)**	**(289.0)**	**(454.5)**
Net increase (decrease) in cash and cash equivalents	**20.5**	**(73.0)**	**(200.6)**
Cash and cash equivalents at beginning of period	311.8	512.5	512.5
Effect of exchange rate fluctuations on cash and cash equivalents	(4.2)	9.4	(0.1)
Cash and cash equivalents at end of period	**328.1**	**448.9**	**311.8**